

Canadian Industries Limited



Annual Report
1938

MAR 25 1943

CANADIAN INDUSTRIES LIMITED

C-I-L HOUSE

MONTREAL

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NATIONAL TRUST COMPANY, LIMITED, MONTREAL

ANNUAL REPORT

THE Directors have pleasure in submitting herewith the twenty-eighth Annual Report of Canadian Industries Limited, together with the Balance Sheet, the Income and Expenditure Account and the Surplus Accounts for the year ended 31st December, 1938.

The substantial business reaction in the United States in 1938 brought about a corresponding decline, though lesser in extent, in Canada. Industries dependent in large measure upon United States purchasing power, notably the pulp and paper industry, were of course particularly affected. Several factors tended to mitigate the effect of the decline, however. Export demand for products of the mines, partly in connection with the European re-armament programmes, offset for the Canadian economy in some degree the unfavourable effect on world trade of increasingly disturbed international relations. Conditions in the wheat growing areas also improved somewhat. Unfortunately industrial construction, a significant factor in any solid advance, remained exceptionally inactive. However, the removal of the 8% sales tax on building materials, and the offering, with Dominion Government aid, of credit at low rates of interest, contributed to a marked expansion in urban residential construction. This provided an excellent example of the stimulus to production and employment to be derived from a reduction in the costs of producing what the citizen desires to buy.

Towards the end of the year improved sentiment in the United States tended to restore confidence to some degree, and, if the catastrophe of war can be avoided, an upward trend for world trade is in prospect.

The recently completed United Kingdom and Canadian trade agreements with the United States represent an important co-operative effort to give impetus to world recovery. For some Canadian products, however, these agreements involve greater competition from foreign goods, which can only be combatted by increased efficiencies in production and distribution costs. This only serves to emphasize still more the ever present necessity of lowering the overhead expense burden of the country, especially in Canada where the primary industries, which have to dispose of their products at world prices, play so large a part. To achieve such an economy entails a widespread willingness to tackle national problems, such as the railway situation; some rationalization of governments; the rehabilitation of those on the "dole" along lines which will increase their employability; and the consolidation of taxation on an equitable basis. Such action is vital if employment is to be increased without reducing the standard of living.

FINANCIAL REVIEW

CONDITIONS in the various operating activities of the Company have closely paralleled the general business trend, with a substantial improvement showing up in the last quarter of the year. Lesser volume, together with lower selling prices for several products and further payments to employees in connection with co-operative security endeavours, has been reflected in somewhat lower earnings. The net income from all sources for the year under review, after setting aside adequate amounts for depreciation and for contingencies, and after making provision for income and capital taxes at the prevailing rates, amounted to \$4,516,754 as compared with \$5,721,862 in 1937. Net earnings per common share amounted to \$6.07 as compared with \$7.86 per share in the previous year. As mentioned in last year's report, however, 1937 earnings included a gain of 22 cents per share realized on the sale of marketable securities, as against 1 cent in 1938. The earnings received from manufacturing and selling activities as distinct from income from investments, expressed as a percentage of total earnings (excluding the non-recurring gains

from realization of marketable securities), stood at 91 % in 1938 in comparison with 88 % in 1937.

DIVIDENDS

Regular quarterly dividends, at the rate of 7 % per annum, were paid on the cumulative preferred stock. Dividends declared on the common stock amounted to \$6 per share and, although \$1.50 per share less than in 1937, were at the same level as obtained in 1936 and in the two preceding years. Common share dividends were payable on the following dates:—30th April, \$1.75; 30th July, \$1.50; 31st October, \$1.25; 23rd December, \$1.50. After providing for dividends, the balance of Earned Surplus amounted to \$3,639,486 as compared with \$3,588,946 at the end of 1937, an increase during the year of \$50,540.

NET CURRENT ASSETS

While slightly lower than a year ago, net current assets are considered adequate, and amounted to \$14,650,000 at 31st December, 1938. Inventories, valued as usual at the lower of cost or market price, are shown on the Balance Sheet at \$6,849,000, some \$106,000 lower than a year ago. For the most part the prices of commodities were irregularly lower during 1938, so that with a comparatively small reduction in the dollar value of the raw material inventory, quantities are about the same as a year ago. Stocks of finished and partly finished products represent about one-half of the total inventory.

FIXED ASSETS

Plants, buildings, equipment, and land are recorded on the Balance Sheet at \$33,102,000, which figure, in the aggregate, is estimated to be somewhat lower than present-day replacement costs. Expenditures in 1938 included the cost of property situated on Beaver Hall Square, Montreal, which was acquired as extra office space. The policy of renewing, modernizing and expanding existing equipment and facilities whenever justified by increased demand, by improvement in the quality of products, or by lower costs, was continued, and total expenditures for the year's con-

struction amounted to \$2,682,000. As against this, however, discarded buildings and equipment to the value of \$762,000 were written off, leaving a net increase in the fixed assets of over \$1,900,000. Additionally, a further sum of \$1,216,000 was charged to manufacturing costs during the year in order to maintain existing plants at a high standard of operating efficiency. Again, to provide for long-term depreciation, an amount of \$1,600,000, computed at rates which are consistent with the practice of prior years, has also been charged into operating costs. These comparatively large figures result from the continual changes and additions necessary to keep abreast of new processes—a characteristic feature of the chemical industry.

INVESTMENT INCOME

Income from marketable securities and from investments in subsidiary and other industrial companies was 42% lower than in 1937. This reduction is partly attributable to lower holdings of Dominion Government bonds but chiefly to the fact that dividends received from General Motors Corporation totalled only \$1.50 per share as against \$3.75 per share in the previous year.

Holdings of marketable securities totalling \$5,072,000 are recorded on the Balance Sheet at cost, and the market value at 31st December, 1938, was lower by approximately \$58,000. As a result of sales effected to provide cash for construction purposes, these holdings, which consist almost entirely of Dominion Government bonds, are more than \$2,000,000 lower than a year ago.

The increase of slightly more than \$100,000 in investments in subsidiary companies represents an addition, through a recent purchase of common stock, to the interest already held in an existing investment. The accounts of companies in which a controlling interest is held have not been consolidated with those of this Company, and income from investments includes the profits earned by those companies in the year 1938 only to the extent of this Company's share in the dividends declared. As the rates of dividends remained practically the same as in 1937, income

from this source reflects little change. The balances of profits in subsidiary companies for the year 1938, after providing for the dividends, have been carried forward in the books of those companies, and in the aggregate amount to \$97,300. As against this, three subsidiary companies sustained losses during the year totalling \$19,300: the extent to which the Company has not provided for its share of such losses amounts to only \$9,430.

TAXATION

Attention has been drawn in the last few Annual Reports to the increasing number of forms of tax levied upon the Company, and it has been stated that benefits must inevitably accrue if the many and complicated forms of taxation could be simplified. If taxes are to be levied equitably and economically, less discretionary legislation and greater efficiency in matters of interpretation and collection should, it is considered, be encouraged as a general principle for all forms of taxation throughout the Dominion. As some recognition of this need, it is of interest to note that three provinces are now making partial use in tax collections of the specially trained and more widely experienced departments at Ottawa. Two further developments in 1938 which should eventually result in simplicity, although only to a very minor extent, are the elimination of sales tax on construction materials, and the apparent trend towards the elimination of the 3% excise tax. On the other hand, two provinces have increased their rates of taxation and one province has instituted a new tax, so that the Company now contributes in Canada, apart from levies for real estate taxes and licences, to three forms of sales tax, six forms of capital tax, and eight forms of income tax. In addition the Company reports on employees' earnings to four different taxing authorities, two of which require the Company to make the tax collections. Contributions are also made to seven different forms of workmen's compensation assessments.

It is not possible to determine accurately the total amount of the Company's contribution under all forms of taxation but, *excluding* sales tax paid by the Company and its customers and customs duties paid on imports of component materials, the total

sum payable to federal, provincial and municipal authorities, amounted for 1938 to \$1,283,000. This is equivalent to twenty-two cents per dollar of net income before taxes, and compares with a corresponding figure of eleven cents per dollar of income in the year 1929. To these figures, however, should be added the indirect taxes paid on the purchase by the Company of goods and services, and also the large cost of the unproductive labour involved in interpreting, and in complying with, the requirements of the numerous tax statutes.

OPERATING REVIEW

THE total value of sales for the year, while almost 5% lower than in the previous year, was 18% greater than in 1936. New products made available in recent years, some of which are not yet on a profitable basis, tended during 1938 to prevent a more serious decline. It is the policy of the Company to take on new lines, related with its chemical activities, on a resale basis in order to be in a logical position to establish manufacturing facilities in Canada as soon as it is economic so to do. The effect of this has been materially to broaden the field of activity. The Company's practice is to utilize the services of a technically expert selling force and to develop specialized advisory departments for the guidance and assistance of customers.

CELLULOSE PRODUCTS GROUP

In a year when some shrinkage in volume might have been expected, uses for "Cellophane" in Canada became more widespread, while industries which had already adapted it to their purposes, increased their consumption because of its value in promoting sales of their own products. The increasing use of transparent bags for the packaging of staple groceries was a noteworthy feature of 1938 business. Additional manufacturing equipment, installation of which was begun in 1937, was completed in September. Aided by progressive growth in production and by recent decreases in some raw material costs, a further reduction in "Cellophane" selling prices was made effective early in December. This is the ninth consecutive reduction since manu-

facture was undertaken in Canada in 1932, representing a total reduction of about one-third.

Repercussions from disturbed conditions in the leather-cloth industry in the United States, along with reduced output in Canada of footwear, bookbinding, wearing apparel and furniture, resulted in some decrease in the industrial sales and profits of the "Fabrikoid" Division. During the last quarter, however, there was a lessening of the amount of distress selling in Canada by United States exporters. Sales to the automobile industry dropped off with the decline in motor car production, but towards the end of the year an improvement was noted.

Total sales of the Paint and Varnish Division also declined below last year's figure, the falling off occurring entirely because of curtailed production of new motor cars. In the automobile refinishing business, "Pyralux", introduced late in 1937, made steady progress, however, and industrial sales attained the same level as in 1937. New high levels were reached in sales to the retailer as a result of the gradually broadening plan of distribution. In this last named field the exemption from sales tax granted on paints and varnishes, and their ingredients, was reflected in a downward revision of selling prices and provided a noticeable stimulus to sales. The output of the Regina works increased appreciably following the resumption of automobile production in that city. Further additions were made to manufacturing facilities in the Montreal works in order to expand capacity.

Manufactured products of the Plastics Division experienced severe competition from Germany and the United States, and to a lesser extent from Japan. Nevertheless sales volume thereof was maintained at a little over last year's level, although at lower prices in some lines. Resale products on the other hand met a considerably lower demand from the motor accessory trade, which was only partially offset by increases in new lines. As a result, total sales were somewhat below last year. Since distribution was undertaken in 1937, sales of X-ray film have reached a substantial volume. Commercial application in Canada of nylon, an entirely new synthetic protein product, has so far been limited to the use of "Exton" bristles in toothbrush manufacture.

CHEMICAL GROUP

Early in 1938, as a measure of simplification in organization, the Company's activities in alkali products were segregated from the General Chemicals Division to form the Alkali Division.

In contrast to 1937 a severe reduction in the demand for chlorine, which is used mainly in the bleaching of kraft and sulphite pulp, was encountered and as a result the new plant at Shawinigan Falls, Quebec, did not operate. Caustic soda, used in the manufacture of soap, pulp and rayon, and in oil refining, was affected to a much lesser degree and this resulted in importations from the United States of caustic soda as a means of redressing the lack of chemical balance. This further unfavourably affected profits. The additions that have been made to the operating facilities of the Alkali Division place it in a strong position to take care of any future requirements of the pulp and paper and other caustic soda and chlorine consuming industries.

There was also a decline in the consumption of most of the products handled by the reconstituted General Chemicals Division. Sulphuric acid, the most widely used acid in the chemical industry, was in smaller demand for the processing of metals, but its use in the manufacture of superphosphate (fertilizer) and in commercial explosives permitted the continuance of a reasonably high level of production. Withdrawals of nitre cake by the International Nickel Company of Canada Limited were adversely affected by further modifications in that company's metallurgical processes. Other manufactured products of this Division include muriatic acid, sales of which have been well maintained through its increasing use in the treatment of oil wells; ammonia, sold largely for refrigeration; and liquid sodium silicate, which is used by soap manufacturers and as a stiffener and adhesive in the manufacture of fibre and corrugated boxes. Resale activities, which tend later to develop into local manufacture as volume grows, also fell off somewhat, although continued progress has been evident in some recently developed lines, such as "Freon", a refrigerant which has a promising future in air-conditioning. Other major resale products include zinc chloride, used for wood

preserving, and alum, consumed by newsprint manufacturers and by municipalities for water purification.

The Mining and Organic Chemicals Division, which in the main carries on a resale business, was affected by the lower demand for dyestuffs and pigments from the textile, paper, paint and leather industries. Chemical requirements of the mining industry, mainly for the separation of metals from ores, were maintained, and a further reduction in selling prices was introduced for sodium cyanide, the most important of these chemicals. The rubber industry, which has improved its products over a period of years by an increasing use of specially developed chemicals, operated at a somewhat lower level, but further progress was made in the development of sales of neoprene, both as a substitute for rubber and in combination with it. A programme for the promotion of "Velan", a chemical for rendering textile fabrics water-repellent, was undertaken and this effort should be reflected in future sales. Of the chemicals manufactured by this Division at Shawinigan Falls, Quebec, sales of hydrogen peroxide, used for bleaching textiles and for dressing furs, diminished. On the other hand there was an encouraging development in the use of solvents for odourless dry-cleaning and metal degreasing.

The unsatisfactory selling-price conditions which had prevailed for some years in the Salt Division improved towards the end of 1938. All grades of salt are produced and the market covers industrial users, such as meat packers, tanners and chemical manufacturers; farmers, for stock-feeding purposes; and householders, for whom a specially free-running grade is sold under the "Windsor" trade mark. Recent developments in the use of salt for highway and airport stabilization and for the removal of ice from highways are now well established. Much attention has been given during recent years to operating efficiencies and the plant is in first-class condition from the point of view of both quality and cost.

EXPLOSIVES AND AMMUNITION GROUP

Improved game conditions and better seasons in many sections of the country, together with increasing interest in the recent

form of trapshooting known as skeet, resulted in an increased demand for shot-shell ammunition. Throughout the country the growing membership in the various Dominion Marksmen clubs encouraged the practice of target-shooting in the off-season. In 1938 special attention was again focused on a programme for improving methods of manufacture, both from a quality and cost standpoint.

Activity in construction work, such as rock excavation and land clearance, hydro-electric plant development, canal building and railroad re-location work, was limited, but new highway building in Eastern Canada contributed appreciably to sales of commercial explosives. Total sales were in fact at a slightly higher level than in 1937 due to the demand from the mining industry—by far the major demand—being well maintained. In addition to the larger users, such as gold, copper and nickel-copper producers, substantial quantities were consumed in mining of coal, iron-ore, lead and zinc, radium, silver and sodium sulphate, and in asbestos pits and limestone quarries. Of a novel order are such uses as for warning signals from lighthouses, for whale hunting and for ice breaking in the seal fisheries. This Division's specialized technical department continues to give assistance in the efficient and safe handling of its products. During the year additional construction work was carried out in each of the four works, including the installation of modern ventilating systems in buildings and other improvements which have resulted in better working conditions and in expanded manufacturing facilities.

As has been pointed out for many years, the policy of the Company has been to confine its sales of military explosives to the requirements of the armed forces of the federal, provincial and municipal governments of Canada, though inherent in this policy was its extension to cover the requirements of other British Empire units as and when necessity arose. This policy continued in 1938 and resulted in somewhat larger orders due to the extended defence programmes in Canada and Great Britain. Despite this, the extent of all sales for military purposes, including supplies to police forces, was $\frac{3}{4}$ of 1% of the total sales value of all products manufactured or sold by the Company in the year.

FERTILIZER GROUP

For the first five years of its existence the Fertilizer Group experienced losses from operations, but for the past three years a growing volume of business and increased and improved plant facilities have brought a moderate profit. The average price of farm products in Canada during the past year was somewhat depressed and affected the amount of fertilizer sold, but nevertheless, based on the entire Canadian requirements, the Group's position showed an improvement, partly owing to the purchase in August, 1937, of a plant at Chatham, Ontario. Sales of products such as insecticides, fungicides, and mineral supplements, continued to expand and helped to maintain sales volume during the winter months when demand for farm fertilizers was small. The influence of the educational activities of governmental departments and other organizations in the value to be obtained by the farmer from an improved fertilizer technique is increasingly discernible in all branches of agriculture. The Group now offers free advisory and soil-testing services to farmers.

MANAGED INVESTMENTS

THE lower level of business activity unfavourably affected some of the managed investments, but those in the process of introducing or developing new products showed satisfactory progress.

Aluminate Chemicals Limited, formed in the latter part of 1936 to resell sodium aluminate and other chemicals for the treatment of boiler-feed water, increased its sales.

Reduced production in the automobile industry adversely affected the operations of Canadian Hanson & Van Winkle Company Limited, but a leading position in the metal-plating business was maintained and results for the year came up to expectations, reflecting a high degree of efficiency in the local management.

There was some contraction in the demand for blasting accessories manufactured by the Canadian Safety Fuse Company Limited and the cost of some raw materials was higher. Nevertheless earnings, while lower than last year, were at a satisfactory level.

Further progress was made in the development of sales of titanium pigments by Canadian Titanium Pigments Limited, and in the middle of the year there was a reduction in selling prices. Prospects for a wider use of the company's products in the paint and paper industries are most encouraging.

No dividends were received from your Company's minority holdings of common stock in Dunlop Tire & Rubber Goods Company Limited. The company, however, continued to make sound progress and recorded larger sales and profits than in 1937. As a result, assisted by completion of the reorganization of the capital structure of the company, payment of the preference dividend was resumed.

RESEARCH

THE research work of the Company has derived considerable benefit from extensions to the central laboratories at Beloeil, completed about the end of 1937. Important additions to analytical and research equipment were a spectograph of the most advanced type and apparatus for photo-microscopic examination. The vital importance of a continuous programme of comprehensive research in the chemical industry cannot be overestimated and the Company is fortunate here in having at its disposal not only its own facilities, but the research achievements of Imperial Chemical Industries Limited and E. I. du Pont de Nemours and Company Incorporated. It is interesting to note that in Canada patents classified under the heading "Chemistry" constituted the largest group issued by the Government for the year ended March, 1938, and in the past five years there has been a steady increase in the number of such patents issued annually. Some of the more interesting phases of industrial chemical research lie in the organic chemical field, and several new developments in this field were made available in 1938 for the benefit of Canadian manufacturers.

ORGANIZATION

TO THE ten industrial divisions in which are administered the Company's manufacturing and resale operations, it has already been pointed out that a new division within the Chemical Group

was added during the year. Direction and co-ordination of the affairs of these eleven divisions from the viewpoint of Company-wide policies and final results are vested in four group general managers. To them respond the division managers, who, besides overseeing the manufacturing, distribution and sales activities of their respective divisions, concern themselves with such industrial developments as may lead to business expansion therein.

The functional services common to all incorporated manufacturing enterprises are, for economy and efficiency, centralized under the management of specialists in the following nine departments: Accounting, Advertising, Engineering, Mechanical Efficiency, Patent, Purchasing, Research and Development, Secretarial and Traffic.

The large circulation of the magazine "C-I-L Oval", which is issued six times a year, now places it in the class of nationally known publications, and numerous requests are received from newspapers and magazines for permission to reprint articles and illustrations. The monthly newspaper, "Contact", continues to carry to employees from coast to coast Company news and items of personal interest. English and French editions of each publication are available.

EMPLOYEE RELATIONS

THE number of employees at the end of the year was 3,670 and, despite lower levels of production and completion of certain construction activities, the shrinkage from the number employed at the end of 1937 was less than 7%. Additionally, employees of companies for the management of which your Company is directly responsible numbered somewhat over 1,000 in 1938, a slight increase from 1937.

The Board acknowledges with full appreciation that the Company's achievements from year to year result in no small measure from the satisfactory relationship which exists between management and employees, and the mutual confidence and co-operation thus inspired. Recognition of the importance of this

factor has encouraged further developments in the policies which have guided the Company's relationship with employees in previous years. It has become axiomatic that such policies must be governed by the three-fold nature of management's responsibility, divided as it is between shareholders, employees, and the public, and that profitable operation is essential if the obligations to all three groups are to be properly discharged. The basis of satisfactory employee relations must always be fair remuneration and good working conditions, and if confidence is to be engendered, the sincerity of management's purpose must be real and apparent. Moreover, that purpose, while endeavouring to avoid paternalism, should seek to help employees to improve their standard of living and to provide themselves with security against the ordinary vicissitudes of life, and it should include willingness to assist in the development of governmental schemes that would assure protection of a kind that is beyond the scope of individual enterprise. In addition, therefore, to reviewing frequently the industrial relations programme with special regard to remuneration and working conditions, constant attention has been directed towards keeping in touch with employee needs. The practice of securing employee opinion on matters of mutual interest is being extended through the use of questionnaires, so that salaried employees may be reached and works councils may be aided in their function of ascertaining and representing the opinions of payroll employees.

At the annual elections under the Employee Representation Plan, the preponderance of elected representatives which had been established at some works in the previous year was maintained, and altogether the 13 works councils comprise 59 elected and 48 appointed representatives. The councils continued their work of dealing with matters raised by employees and of advising management regarding employee opinion on a variety of subjects related to working conditions and industrial relations plans.

Regular conferences of foremen and supervisors are being held at three of the larger works and will be extended to others, giving those taking part an opportunity to gain a more thorough understanding of the Company's employee relations policies, as well

as to discuss ways and means of improving operating efficiency.

In matters affecting wages and working conditions, extensive labour legislation, particularly in the Province of Quebec, has entailed practically no adjustment in Company practices, this being due to the standards which were already a part of the Company's policy.

INDUSTRIAL RELATIONS PLANS

UNDER the Vacation Plan 2,136 eligible payroll employees received vacations with pay, in the great majority of cases of two weeks' duration, at a total cost for the year of \$105,000. Salaried employees received vacations as usual.

The Disability Wage Plan for payroll employees provided 418 sick employees during the period of their respective disabilities with an income, beginning after a seven-day waiting period, equivalent to full wages for a maximum period of thirteen weeks. A sum of \$41,000 was paid out under this Plan.

The cost of these two plans is borne entirely by the Company.

The Co-operative Sickness and Non-occupational Accident Insurance Plan, which had been in effect since June, 1935, and, during periods of disability, had provided weekly benefits varying from \$5 to \$25 according to earnings, was terminated in October. Under this Plan, claimants received \$30,500 in benefits in the course of the year. The introduction in 1937 of the Disability Wage Plan above referred to—which tends to protect payroll earners against sickness as does continuance of salaries in the case of salaried employees—made a different type of insurance desirable, and a new plan was designed to meet employees' present needs. This took the form of the Co-operative Health Insurance Plan which, introduced in October, provides for the payment within specified limits of expenses arising from a disability necessitating an insured employee remaining in hospital for at least twenty-four hours. The total maximum benefit payable in any one case of disability is \$320, divided among hospital charges, surgical fees, and cost of miscellaneous services. A

Medical Benefit Supplement to this new Plan enables employees, with the Company's assistance, to insure themselves against the expense of medical services not covered in hospitalization cases, to the extent of a benefit in any one sickness ranging from \$5 to \$25, according to the length of disability and the amount of the physician's fee.

The 1937-1938 Co-operative Savings Plan terminated in December after 18 months and 2,692 participants received in 1938 \$503,500, representing their own savings, interest at 3%, and the Company's contribution, equivalent to 25 cents for every dollar saved and amounting to almost \$100,000. This plan was offered to all employees having not less than one year's service and earning not more than \$3,000 a year, and the maximum deposit was fixed at 10% of earnings with a limit of \$20 a month.

Under the terms of three previous Stock Investment Plans, extra payments totalling \$19,500 were made by the Company to subscribers who were still in its employ and who still held their shares. There has been no new stock investment plan offered subsequent to 1937.

The Pension Plan permitted retirement of 6 employees on pension, raising the total number of living pensioners to 77. This Plan is entirely supported by the Company and a sum of \$228,000 was added during 1938 to the reserve established to meet the requirements of future pensions. Actual cash payments for the year amounted to \$56,600. The possibility of introducing a contractual retirement plan is still the subject of study.

All the above plans are so designed as to inure in the main to the benefit of payroll employees and of those in the lower salary groups.

Under the Employees' Benefit Plan, death benefits amounting to \$18,800 became payable to the beneficiaries of 12 employees and 2 pensioners. Accruals to the reserve already set up to meet future obligations under the Plan totalled \$135,000 in 1938. The benefit is graded from \$1,000 to \$1,500, according to length of service, and is paid from a reserve supported solely by the Company.

The Bonus Plan is designed to appraise constructive and outstanding services of key individuals and to provide recognition for those services in a manner which, while avoiding additions to the cost of management and inflexibility in remuneration in poor earning years, has the definite advantages of incentive and stock-ownership features. For the year 1938, the twentieth year in which the Plan has been in force, 174 employees received awards of shares purchased from the Company to be delivered in equal instalments over a period of four years. The Plan takes effect only when the year's earnings from operations, exclusive of income from investments, exceed 6% of the manufacturing investment, at which time an amount of not more than 15% of such excess is applied to the purchase of class "B" non-voting common shares at a price decided upon by the Board of Directors on the basis of earning power and other factors. Awards are then made by a committee of the Board of Directors upon recommendation of Company senior executives.

The results under the No-Accident Record Plan continued to reflect the keen interest displayed by employees in the co-operative activities which have for many years been undertaken for the prevention of personal injury and property damage. The frequency and severity rates of injuries for the year, although not quite as favourable as for 1937, were among the lowest ever recorded.

Records maintained under the Service Pin and Watch Plan reveal that 1,176 employees have ten or more years' service and 301 have twenty or more years' service, either entirely with your Company or in part with an associated or an acquired company.

DIRECTORS

A DEEP sense of loss was felt by all your Directors as a result of the death of Lt.-Col. Herbert Molson, C.M.G., M.C., on 21st March last. Colonel Molson had served on the Board of Directors for nearly nineteen years, and his sound judgment, wise counsel and the esteem in which he was held as a result of his outstanding personal characteristics and of his sense of public service, were invaluable to the Company.

The resignations of Mr. George W. White and Mr. H. J. Mitchell were accepted with great regret after eleven and seventeen years of service respectively, the former retiring as a result of his return to England, and the latter owing to ill-health.

Sir Edward Beatty, G.B.E., Mr. George W. Huggett and Mr. Richard Fort were elected to the Board during the year.

On behalf of the Board of Directors,

ARTHUR B. PURVIS,
President and Managing Director.

Montreal, Canada, 6th March, 1939.

CANADIAN INDUSTRIES LIMITED

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1938

Income from Operations after charging \$1,600,134 for depreciation.....		\$ 5,629,852
Income from Investments.....	\$ 466,391	
Profit on sale of Marketable Securities.....	7,990	474,381
		<u>6,104,233</u>
Less:		
Directors' Fees.....	17,750	
Remuneration of 29 Executives, including bonus awards.....	549,997	
Legal Expenses.....	2,393	
Reserve for Income Taxes.....	1,017,339	1,587,479
		<u>1,587,479</u>
NET INCOME FOR THE YEAR 1938 TRANSFERRED TO EARNED SURPLUS ACCOUNT.....		<u><u>\$ 4,516,754</u></u>

EARNED AND CAPITAL SURPLUS ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER, 1938

	EARNED SURPLUS	CAPITAL SURPLUS
SURPLUS AT 1ST JANUARY, 1938.....	\$ 3,588,946	\$14,935,768
Net Income for the year 1938 as per Income and Expenditure Account.....	4,516,754	
Net Loss on the sale of Capital Assets....		5,132
	<u>8,105,700</u>	
Dividends for the year 1938:		
Preferred 7% Cumulative Stock.....	325,500	
Common Stock (\$6.00 per share).....	4,140,714	
	<u>4,466,214</u>	
SURPLUS AT 31ST DECEMBER, 1938.....	<u><u>\$ 3,639,486</u></u>	<u><u>\$14,930,636</u></u>

CANADIAN INDU

BALANCE SHEET AT

ASSETS

CURRENT ASSETS

Cash.....	\$ 1,949,149	
Marketable Securities (market value \$5,014,000)...	5,072,389	
Government.....	\$ 4,819,863	
Others.....	<u>252,526</u>	
Accounts Receivable, less reserve for doubtful accounts.....	3,468,901	
Customers' Accounts.....	\$ 2,794,368	
Subsidiary Companies.....	<u>188,848</u>	
Accrued Revenue from Investments and Other Accounts.....	<u>485,685</u>	
Inventories, valued at the lower of cost or market price.....	<u>6,848,576</u>	\$17,339,015

DEFERRED CHARGES TO OPERATIONS..... 87,356

PREFERRED SHARES, IN TRUST FOR EMPLOYEES'
STOCK INVESTMENT PLANS..... 923,989

FIXED ASSETS

Plants, Buildings and Equipment, based on the appraisals of the National Appraisal Company (1927 to 1929), as adjusted by the Company's own engineers, with sub- sequent additions at cost.....	31,448,919	
Land, at cost.....	1,653,411	
Goodwill, Patents and Processes.....	<u>3,378,151</u>	36,480,481
Investments in Subsidiary Companies.....	810,590	
Shares in Other Companies (including marketable shares, book value \$2,500,000, market value \$6,250,000).....	<u>3,587,685</u>	4,398,275
		<u>\$59,229,116</u>

Approved on behalf of the Board,

C. C. BALLANTYNE }
ARTHUR B. PURVIS } *Directors.*

STRIES LIMITED

31st DECEMBER 1938

LIABILITIES

CURRENT LIABILITIES

Accounts Payable.....	\$ 1,530,974	
Subsidiary Companies.....	8,890	
Dominion, Provincial and Municipal Taxes...	1,070,033	
Dividends Declared.....	<u>81,375</u>	\$ 2,691,272

DEFERRED LIABILITIES.....	204,907
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RESERVES

Depreciation of Securities.....	1,200,000	
Depreciation of Plants, Buildings and Equipment.....	14,754,463	
Pension and Benefit Plans and Self-Insurance..	<u>2,810,545</u>	18,765,008

CAPITAL STOCK

Authorized	Shares
Preferred 7% Cumulative Stock (par value \$100).....	75,000
Common Stock (no par value)	
Class "A" Voting.....	660,000
Class "B" Non-voting.....	<u>690,000</u>
Issued and Fully Paid	
Preferred Stock.....	46,500 4,650,000
Common Stock	
Class "A".....	615,974
Class "B".....	<u>74,145</u> 690,119 14,347,807
(Issued during the year to employees under the Company's Bonus Plan, 3,843 Class "B" shares—\$576,450)	

CAPITAL SURPLUS.....	<u>14,930,636</u>	33,928,443
EARNED SURPLUS.....		<u>3,639,486</u>
		<u>\$59,229,116</u>

This is the Balance Sheet referred to in our attached Report of even date.

P. S. ROSS & SONS, *Chartered Accountants.*

Montreal, 16th February, 1939.

AUDITORS' REPORT

Canadian Industries Limited,
Montreal.

We have audited the books of account and financial records of Canadian Industries Limited for the year ended 31st December, 1938, and have obtained all the information and explanations we have required.

The inventories shown on the attached Balance Sheet have been determined and certified by the management of the Company.

In accordance with Section 114 of the Dominion Companies Act, we report that profits earned by subsidiary companies for the year 1938 have been included in the attached accounts only to the extent of the dividends declared and received or receivable by this Company and that losses incurred by subsidiary companies have not been fully provided for in the attached accounts. However, the balances of the profits in subsidiary companies, which have been carried forward in the books of those companies, are, in the aggregate, in excess of the losses sustained by subsidiary companies which losses have also been carried forward in the books of those companies.

We certify that, in our opinion, the attached Balance Sheet and relative Income and Expenditure Account and Surplus Accounts are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December, 1938, and the result from operations for the year ended that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

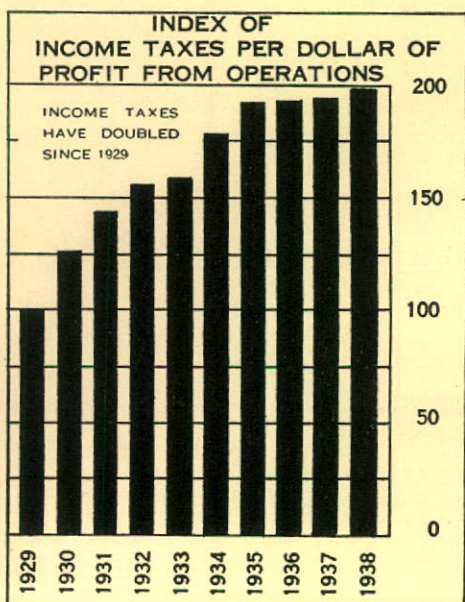
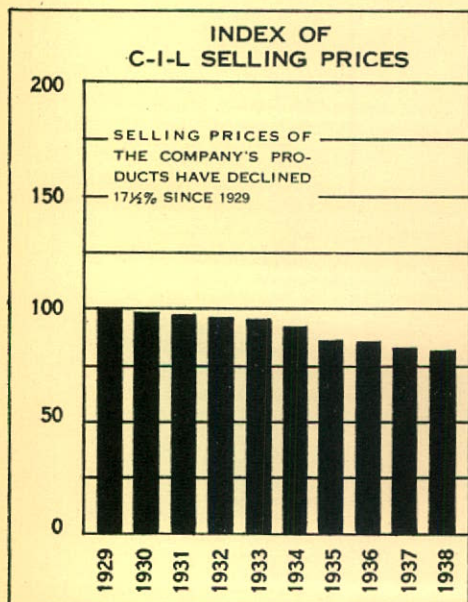
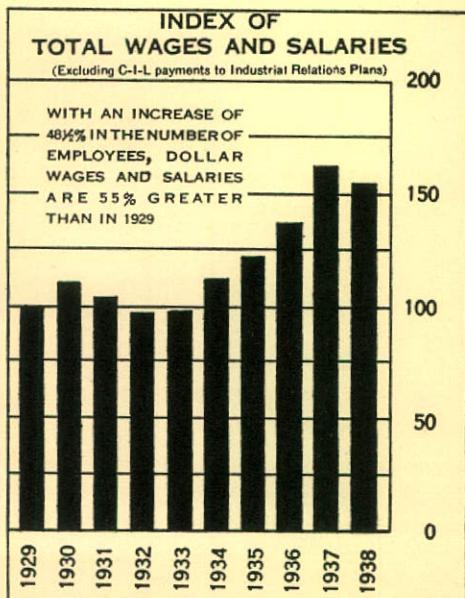
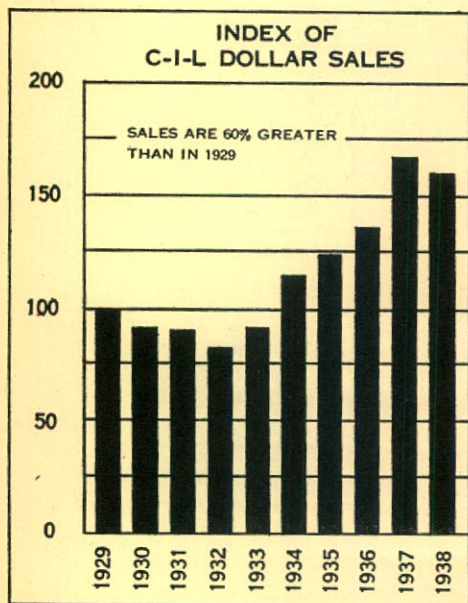
P. S. ROSS & SONS,
Chartered Accountants.

Montreal, 16th February, 1939.

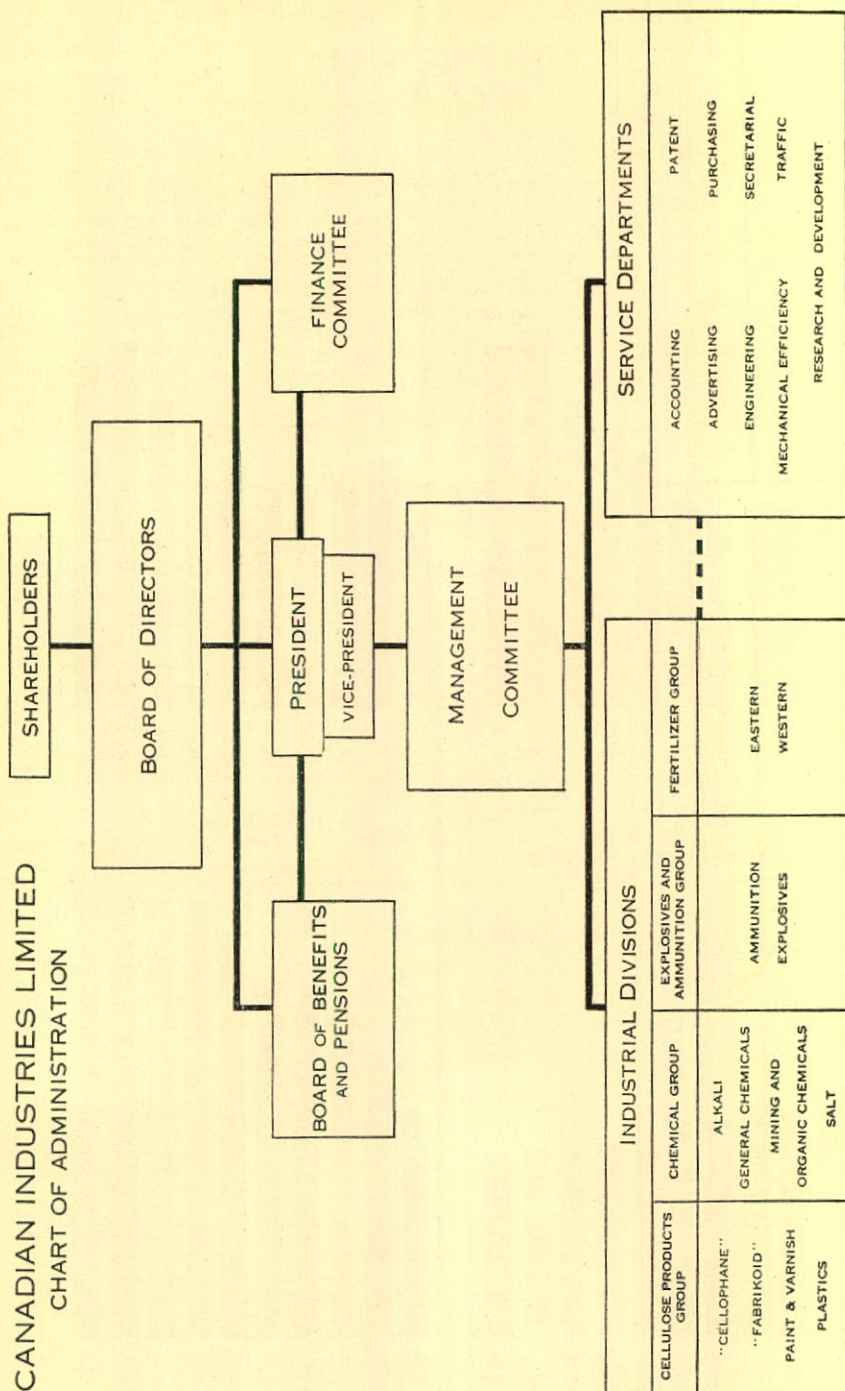
CANADIAN INDUSTRIES LIMITED

STATISTICAL INDICES

1929 = 100



CANADIAN INDUSTRIES LIMITED CHART OF ADMINISTRATION



CANADIAN INDUSTRIES LIMITED

CELLULOSE PRODUCTS GROUP

"CELLOPHANE" DIVISION

Plain transparent, moistureproof transparent and other special grades of plain and coloured "Cellophane" cellulose film.

"FABRIKOID" DIVISION

"Fabrikoid" and rubber-coated fabrics; "P.X." book cloth and other binding materials; "Tontine" window-shade cloth, buckram, etc.

PAINT AND VARNISH DIVISION

Lacquers, varnishes and enamels; oil colours; industrial paints; "Duco" finishes for industrial and household uses (sole Canadian manufacturers); "Cilux" and "Dulux" finishes; cellulose sponges, etc.

PLASTICS DIVISION

Combs; tooth-brushes; toiletware; cleanable collars; transparent and opaque plastic sheets, rods and tubes; moulding powders; X-ray film; "Lucitone" denture material and nylon mono-filaments.

CHEMICAL GROUP

ALKALI DIVISION

Caustic soda and other alkalis; chlorine; bleaching powder and other chlorine derivatives.

GENERAL CHEMICALS DIVISION

Sulphuric and muriatic acids, aqua and anhydrous ammonia and refrigerant gases and other heavy chemicals.

MINING AND ORGANIC CHEMICALS DIVISION

Dyestuffs; dry colours and pigments; intermediates; mining chemicals, rubber colours and chemicals; solvents; ceramic materials and other organic chemicals.

SALT DIVISION

All grades of "Windsor" salt for household, agricultural and industrial purposes.

EXPLOSIVES AND AMMUNITION GROUP

"DOMINION" AMMUNITION DIVISION

"Duco" waterproof shot-shells and all other classes of sporting ammunition embodying "Super-clean" non-mercuric priming; railway fuses and signals, etc.

EXPLOSIVES DIVISION

Commercial explosives and blasting accessories.

FERTILIZER GROUP

FERTILIZER DIVISION

Superphosphate; complete fertilizers; "Gardenite" plant food; insecticides; "Cel-o-Glass"; "Sol-Min" (mineral supplement); "Stable-Phos", etc.

